

FISCAL NOTE
SB 2584 - HB 2623

February 22, 2004

SUMMARY OF BILL: Provides a research and development tax credit equal to 10% of the excess of the taxpayer's total Tennessee qualified research and development expense for the taxable year over the taxpayer's Tennessee base amount with the total amount of the exemption not to exceed 50% of total franchise and excise tax liability. The total amount of all of the credits approved by the Department of Revenue is limited to \$30,000,000, of which \$6,000,000 is to be allocated specifically to small businesses as defined within the legislation. The bill also provides qualifications for expenditures, individual taxpayer limits and carryover provisions for the tax credit. According to the bill, the Department of Revenue would also be responsible for reporting to the General Assembly by March 15 of each year the amount of credits approved as well as information pertaining to the recipients of such credits. The Department of Revenue would cease to approve credits for taxable years ending after December 31, 2006.

ESTIMATED FISCAL IMPACT:

Increase State Expenditures - \$102,400 One-Time
Decrease State Revenues - Exceeds \$2,000,000 FY05
Exceeds \$4,200,000 FY06

Estimate assumes:

- National Science Foundation estimates of \$1,215,000,000 in R&D expenditures in the year 2000 in Tennessee.
- A 3% annual growth in R&D expenditures in Tennessee (equal to the growth rate between 1995-2000).
- R&D expenditures in FY05 \$41,000,000 higher than R&D expenditures in FY04.
- R&D expenditures in FY06 \$42,300,000 higher than R&D expenditures in FY05.
- The entire 10% credit is applied against the 50% of F&E tax liability in the year the expense is incurred.
- The full amount of the credit is applied in the first year, leaving no carry forward.
- The total amount of all credits provided is limited to \$30,000,000.
- Administrative costs to the Department of Revenue to carry out the provisions of the bill are estimated to be \$102,400, one-time.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director